

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV PRIORITY

C O N F I D E N T I A L STATE 003184

E.O. 11652: GDS

TAGS: EAID, IS

SUBJECT: ISRAEL'S AID REQUEST FOR FY 75

REF: STATE 240748

1. SUMMARY: ISRAELI EMBASSY ECONOMIC MINISTER SHER CALLED ON MR. NEWMAN (DEPUTY TO UNDERSEC DONALDSON) JAN 3 TO PRESENT UNOFFICIAL ADVANCE COPY OF DRAFT TABLES FOR GOI "GRAY PAPER" WHICH PROVIDE PRELIMINARY VIEW OF ISRAEL'S ECONOMIC OUTLOOK FOR 1974-75. SHER STATED TABLES SHOW THAT TO CLOSE BALANCE OF PAYMENTS GAP ISRAEL WILL NEED ABOUT ONE BILLION DOLLARS IN U.S. ASSISTANCE DURING U.S. FY 75, UNOFFICIALLY ESTIMATED AT 300 MILLION DOLLARS FMS, 150 MILLION DOLLARS PL 480 AND 500 MILLION DOLLARS SUPPORTING ASSISTANCE. HE POINTED OUT DRAFT GOI REQUEST FOR U.S. AID (GRAY PAPER) NOT FULLY CLEARED BY GOI AND GOI HAS NOT CONFIDENTIAL

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YET DRAWN UP FY 74-75 BUDGET REQUEST TO PRESENT TO KNESSET. SHER HOPED USG WOULD DIGEST PRELIMINARY INFORMATION IN TABLES AND MAKE AID PROPOSAL WITHOUT OFFICIAL ISRAELI REQUEST. SHER SAID IF PRESIDENT'S BUDGET MESSAGE TO

CONGRESS LATE JANUARY COULD CONTAIN PORTION DEALING WITH AID TO ISRAEL IT WOULD GIVE GOI IDEA WHAT IT COULD EXPECT IN U.S. ASSISTANCE FOR USE IN DRAWING UP ITS OWN COMING-YEAR BUDGET. ISRAEL COULD THEREBY AVOID NEED TO PRESENT U.S. WITH OFFICIAL REQUEST WHICH MIGHT BE PUBLICLY DEBATED. PUBLICITY AND ISRAELI DISAPPOINTMENT OVER POSSIBLE U.S.

FAILURE TO MEET HIGH AID EXPECTATIONS MIGHT HAVE ADVERSE EFFECT ON OUTLOOK FOR PEACE NEGOTIATIONS. SHER FELT ARABS MORE LIKELY TO SEEK PEACE SETTLEMENT IF ISRAEL REMAINED ECONOMICALLY STRONG. TABLES SHOW ISRAEL'S FOREIGN EXCHANGE RESERVES WILL DECREASE FROM 1,731 MILLION DOLLARS END 1973 TO 669 MILLION DOLLARS END 1975, SUFFICIENT TO COVER ONLY 10 PERCENT OF ANNUAL IMPORTS. ISRAEL'S CREDIT WORTHINESS ALREADY BEING QUESTIONED BY IBRD DUE TO POSSIBLE OCTOBER WAR EFFECT ON BALANCE OF PAYMENTS POSITION AND ABILITY SERVICE INCREASED FOREIGN DEBT. DEPARTMENT WILL APPRECIATE EMBASSY'S COMMENTS. END SUMMARY.

2. ISRAELI EMBASSY ECONOMIC MINISTER SHER CALLED ON MR. NEWMAN (DEPUTY TO UNDERSEC DONALDSON) JAN 3 TO PRESENT ADVANCE COPY OF DRAFT TABLES FOR* EVENTUAL GOI "GRAY PAPER" WHICH WILL PROVIDE FORECAST OF ISRAEL'S NEEDS FOR U.S. ASSISTANCE DURING U.S. FY 75. SHER SAID WHILE GOI SHOULD PRESENT "GRAY PAPER" TO EMBASSY TEL AVIV IN LATE JANUARY, HE FELT NEED TO PROVIDE USG WITH PRELIMINARY VIEW ISRAEL'S ECONOMIC OUTLOOK FOR COMING YEAR WHICH HE TERMED WORSE THAN AT ANY PREVIOUS TIME. SHER POINTED OUT DRAFT "GRAY PAPER" NOT YET FULLY CLEARED BY GOI AND GOI HAD NOT YET DRAWN UP FY 74-75 BUDGET FOR PRESENTATION TO KNESSET. SHER HOPED U.S. WOULD TAKE PRELIMINARY INFORMATION PROVIDED IN DRAFT TABLES AND COME BACK WITH PROPOSAL. HE HOPED PRESIDENT'S BUDGET MESSAGE TO CONGRESS LATE JANUARY COULD DEAL WITH ASSISTANCE TO ISRAEL TO ENABLE GOI KNOW AMOUNT U.S. AID IT COULD EXPECT FOR USE IN PREPARING ITS OWN COMING-YEAR BUDGET. ISRAEL COULD THEREBY AVOID NEED DRAW UP OFFICIAL REQUEST TO U.S. WHICH MIGHT BE PUBLICLY CONFIDENTIAL

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DEBATED. PUBLICITY AND ISRAELI DISAPPOINTMENT OVER POSSIBLE U.S. FAILURE TO MEET HIGH AID EXPECTATIONS MIGHT HAVE ADVERSE EFFECT ON OUTLOOK FOR PEACE NEGOTIATIONS IF ARABS SAW U.S. SUPPORT FOR ISRAEL SLACKENING.

3. SHER SAID ISRAEL WOULD NEED FOR ITS 1974-75 FISCAL YEAR NEARLY ONE BILLION DOLLARS U.S. ASSISTANCE (FOR U.S. FY 75 BUDGET) IN FOLLOWING CATEGORIES TO ENABLE ISRAEL CLOSE BALANCE OF PAYMENTS GAP: 300 MILLION DOLLARS FMS; 150 MILLION DOLLARS PL 480; AND 500 MILLION DOLLARS SUPPORTING ASSISTANCE. SHER SAID ISRAEL WOULD NEED ABOUT 600 MILLION DOLLARS (PERHAPS MORE) IN CY 74 WITH REMAINING 400 MILLION DOLLARS IN CY 75. ISRAEL CAN WAIT FOR ADDI-

TIONAL LARGE-SCALE U.S. ASSISTANCE IN U.S. FY 76.
INASMUCH AS 2.2 BILLION DOLLARS EMERGENCY SECURITY ASSIST-
ANCE WILL COVER ISRAEL'S MILITARY COSTS RESULTING FROM
OCTOBER WAR, ISRAEL WILL NEED ONLY 300 MILLION DOLLARS FMS
ASSISANCE IN U.S. FY 74 TO HELP PAY FOR SUPPLY CONTRACTS

SIGNED BEFORE THE WAR ON CIVILIAN MARKET.

4. SHER DESCRIBED "GRAY PAPER" FORECASTS AS OPTIMISTIC
IN TERMS OF ISRAEL'S ECONOMIC ACTIVITY AND ITS ABILITY TO
SERVICE ITS FOREIGN DEBT. HE ADDED THAT TABLES WERE
DRAFTED BASED ON FOLLOWING IMPORTANT ASSUMPTIONS:

A. NO POLITICAL-MILITARY CHANGE WILL OCCUR TO BRING
ABOUT IMPORTANT CHANGE IN ECONOMY; I.E., NO LARGE-SCALE
WITHDRAWAL BY ISRAEL, SHORT WAR, WAR OF ATTRITION OR OTHER
POLITICAL MOVE HAS BEEN TAKEN INTO CONSIDERATION IN PRE-
PARING "GRAY PAPER."

B. MOBILIZATION OF RESERVES WILL BE NEARLY 200,000 MEN
END 1973, AVERAGE 100,000 MEN DURING 1974, DROP TO 40,000
END 1974 AND 30,000 IN 1975.

C. PRODUCTIVITY OF ECONOMY WILL REMAIN AT 1972 LEVEL.

D. THERE WILL BE 25 PER CENT INCREASE IN WORLD PRICES
OVER 1973, PRIMARILY FOR PETROLEUM WHICH WILL CAUSE
PRICE INCREASE FOR OTHER COMMODITIES.
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E. GOI AUSTERITY PROGRAM WILL REDUCE STANDARD OF LIVING
TO END 1972 LEVEL BY REDUCING SUBSIDIES ON CERTAIN FOOD
ITEMS, RAISING TAXES (PARTICULARLY INDIRECT TAXES), RAISING
PRICES ON CONSUMER ITEMS AND CURBING IMPORTS, THUS JUSTI-
FYING HIGHER U.S. ASSISTANCE THAN IN PAST.

F. U.S. ASSISTANCE OF 2.2 BILLION DOLLARS WILL PROVIDE
INITIALLY 1.5-BILLION-DOLLAR GRANT TO COVER ARMS PURCHASED
SINCE OCTOBER WAR WITH SOME ADDITIONAL EQUIPMENT TO BE
PURCHASED LATER ON CREDIT TERMS, BUT IMPORTANT CONSIDERA-
TION IS NOT TO INCREASE FURTHER ISRAEL'S DEBT FOR WEAPONS
CAUSED BY OCTOBER WAR.

G. U.S. WILL CONTINUE PROVIDING ASSISTANCE FOR SETTLING
EWS EMIGRATING FROM SOVIET UNION; IMMIGRATION TO ISRAEL
WILL CONTINUE AT ANNUAL LEVEL OF 50-60,000 INCLUDING
30-40,000 FROM SOVIET UNION.
30-40,000 FROM SOVIET UNION.

H. THERE WILL BE SOME PL 480 TITLE I ASSISTANCE IN 1975
PROVIDING STATE DEPT RECOMMENDS STRONGLY TO USDA THIS
BE GRANTED.

I. CONTRIBUTIONS FROM UJA WILL CONTINUE BUT AT LOWER RATE THAN PREVIOUS YEARS.

J. ISRAEL BOND SALES WILL REMAIN HIGH ALTHOUGH SHER HAS QUESTIONED FINANCE MINISTER SAPIR'S ASSUMPTION ON THIS (SEE REFTEL).

5. SHER POINTED OUT TABLE III SHOWS FOREIGN EXCHANGE RESERVES DECREASING FROM 1,731 MILLION DOLLARS END 1973 TO 669 MILLION DOLLARS END 1975 WHICH WOULD COVER ONLY TEN PER CENT OF ANNUAL IMPORTS DESPITE EFFORTS TO MAINTAIN HIGH EXPORT RATE AND REDUCE IMPORTS. SHER SAID THIS CLEAR REDUCTION IN ONE OF ISRAEL'S MAIN FACTORS OF ECONOMIC STRENGTH WILL BE DUE TO HIGH COST OF WAR AND WORLD INFLATION. ISRAEL WILL BE DECREASING ITS IMPORTS IN REAL TERMS BUT VALUE OF IMPORTS WILL INCREASE DUE TO INFLATION. SHER SAID 1973 EXPORTS WOULD BE ABOUT 90 PER CENT OF FORECASTS WITH AGRICULTURAL ITEMS EXCEEDING EXPECTATIONS BUT INDUSTRIAL CONFIDENTIAL

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TRIAL GOODS AND DIAMONDS DROPPING BELOW ESTIMATES.

6. SHER STATED UNLESS ISRAEL IS ABLE TO TAKE MEANINGFUL STEP FORWARD IN ECONOMIC DEVELOPMENT DURING NEXT FEW YEARS, ISRAEL MIGHT REMAIN DEPENDENT ON U.S. FOREVER. ISRAEL'S ECONOMIC WEAKNESS WOULD ENCOURAGE ARABS NOT REPEAT NOT TO SEEK PEACE BUT TO WAIT FOR ISRAEL'S ECONOMIC COLLAPSE AS IDEAL TIME FOR ATTACK. SHER POINTED OUT "GRAY PAPER" FORECASTS ARE ONLY PRESENT BEST ESTIMATES OF WHAT FUTURE WILL HOLD AND THIS CANNOT BE DEFINITELY PREDICTED BUT FORECASTS REPRESENT SITUATION THAT WILL BE PRESENTED TO NEW KNESSET AND ISRAELI PEOPLE AND WERE NOT DRAWN UP WITH SOLE IDEA OF OBTAINING U.S. AID. SHER ADDED ISRAEL'S FRIENDS IN CONGRESS HAVE ALREADY EXPRESSED INTEREST IN ISRAEL'S NEEDS FOR FY 75 BUT SHER HAS SO FAR DECLINED TO PROVIDE THIS TO CONGRESS UNTIL HE HAD OPPORTUNITY TO DISCUSS IT WITH ADMINISTRATION. HOWEVER, HE FEELS CONGRESS WILLING PROVIDE SUBSTANTIAL AID TO ISRAEL IN FY 75. SHER SAID HE REALIZED DECISION ON AID TO ISRAEL MIGHT BE DELAYED UNTIL AFTER PRESIDENT'S BUDGET MESSAGE BUT HE WISHED EMPHASIZE SITUATION NEVER LOOKED SO BAD AND SUGGESTED SENDING TEAM TO ISRAEL FOR EVALUATION. HE ADDED THAT 50 PER CENT OF GOI FY 74-75 BUDGET WILL BE FOR DEFENSE.

7. NEWMAN POINTED OUT THERE WAS NO NEED FOR EVALUATION TEAM TO VISIT ISRAEL BECAUSE EMBASSY KEEPS US WELL INFORMED ON ECONOMIC SITUATION AND WE SHOULD SOON HAVE EMBASSY'S VIEWS AND SUGGESTIONS FOR FY 75 BUDGET. WE WILL TRY TO ACCOMMODATE ISRAEL'S NEEDS WITHIN CONSTRAINTS OF AVAILABILITIES AND CONGRESSIONAL ACTION. HOWEVER, ADMINISTRATION STILL PUTTING TOGETHER FY 75 BUDGET FIGURES AND IN

PROCESS OF MAKING DETERMINATIONS WITH RESPECT TO FY 74
FUNDS. NEWMAN NOTED ADMINISTRATION'S

TECHNICIANS WILL PROBABLY HAVE MANY QUESTIONS ON VALIDITY
OF "GRAY PAPER" TABLES. SHER SAID HE WOULD PROVIDE ADDI-
TIONAL INFORMATION LATER AND WISHED TO RETURN TO DISCUSS
TECHNICAL MEANS OF U.S. PROVIDING ASSISTANCE GOI NEEDS.
SHER MENTIONED HE WOULD ALSO PRESENT DRAFT TABLES TO
REPRESENTATIVES OF OTHER ADMINISTRATION AGENCIES CONCERNED
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WITH FOREIGN ASSISTANCE BUDGET.

8. FOLLOWING ARE ESSENTIAL DATA FROM DRAFT TABLES PRO-
VIDING 1973 ESTIMATES AND 1974-75 FORECASTS. FOOTNOTES
AND PRE-1973 DATA OMITTED. ALL FIGURES IN MILLIONS OF
DOLLARS:

TABLE I - ISRAEL'S BALANCE OF PAYMENTS

CURRENT ACCOUNT	1973	1974	1975
TOTAL IMPORTS	5,275	6,405	6,820
(DEFENSE)	(1,570)	(1,825)	(1,550)
TOTAL EXPORTS	2,730	3,325	3,975
CURRENT ACCT DEFICIT	2,545	3,080	2,845
EXTERNAL DEBT MATURITIES	430	450	640
TOTAL FINANCING			
REQUIREMENTS	2,975	3,530	3,485

SOURCES OF FINANCE

NET FOREIGN INVESTMENT	125	25	75
TRANSFERS OF INDIVIDUALS	350	275	250
GERMAN PERSONAL RESTITUTIONS	275	275	250
TRANSFERS OF INSTITUTIONS	680	400	360
GROSS SALES ISRAEL BONDS	465	500	500
SUBTOTAL	1,895	1,475	1,435

GAP TO BE COVERED BY
EXTRAORDINARY U.S. ASSIST-
ANCE AND BORROWING 1,080 2,055 2,050

TABLE II - SOURCES OF BORROWING AND U.S. ASSISTANCE TO
COVER BALANCE OF PAYMENTS GAPS

BORROWING	1975	1974	1973
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GERMAN GOVERNMENT	50	55	55
WORLD BANK	25	25	18
EXIMBANK	40	40	35
A.I.D. HOUSING GUARANTEE	50	50	15
PL 480	10	8	46
MILITARY SALES CREDITS	300	300	300

SUBTOTAL NONCOMMERCIAL

BORROWING	475	478	469
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COMMERCIAL BORROWING	225	175	385
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GRANTS

RESETTLEMENT OF SOVIET JEWS	50	40	39
SUPPORTING ASSISTANCE	150	50	73

SUBTOTAL GRANTS	200	90	112
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EMERGENCY SECURITY ASSISTANCE

ELIGIBLE DEFENSE SHIPMENTS	600	800	800
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TOTAL OF ABOVE SOURCES	1,500	1,543	
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ESTIMATED BALANCE OF PAY-

MENTS GAP	2,050	2,055	
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UNCOVERED GAP	550	512	
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NCOVERED 1975 GAP IF

UNCOVERED 1975 GAP IF

REQUESTS NOT GRANTED	1,100		
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TABLE III - ISRAEL'S FOREIGN EXCHANGE DEBT AND RESERVES

	1973	1974	1975
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EXTERNAL DEBT (END YEAR)	4,970	5,873	7,033
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DEBT PER CAPITA \$	1,528	1,747	2,024
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FOREIGN EXCHANGE RESERVES	1,731	1,219	669
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TOTAL IMPORTS	5,275	6,405	6,820
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RESERVES AS PER CENT OF

IMPORTS	33	19	10
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9. ISRAELI EMBASSY ECONOMIC COUNSELOR NAVEH TOLD DEPTOFF
JANUARY 3 WORLD BANK HAS BEGUN QUESTION ISRAEL'S CREDIT

WORTHINESS DUE TO EFFECT OF OCTOBER WAR ON BALANCE OF
PAYMENTS POSITION AND FOREIGN DEBT SERVICING ABILITY.
NAVEH SAID IT IMPERATIVE ISRAEL OBTAIN 1.5 BILLION DOL-
LARS AS GRANT TO REGAIN IBRD CONFIDENCE NECESSARY FOR
35-MILLION-DOLLAR AGRICULTURAL LOAN.

10. DEPARTMENT WILL APPRECIATE EMBASSY COMMENTS. KISSINGER

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